



Managing Money

Financial Readiness

Managing Money: Financial Readiness

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Owning your own home is a major step, but one that can lead to financial security. There are many benefits to owning your own home. There are also a number of challenges.

One of the first steps is to determine if you are financially ready to purchase a home. Many of the work sheets that you may have completed in the previous sections will help you determine if you are financially ready to be a home owner. If you have not already done so, complete the Net Worth Work Sheet, the Spending Plan Work Sheet and the How Much Do I Owe Work Sheet. These will help you answer the questions below.

Use the following questions and the completed work sheets to help you decide if you are ready to buy a home.

1. Do I have a steady source of income?
2. Have I been employed on a regular basis for two to three years? If you own your own business, do you have your income tax records to confirm your income?
3. Is my income reliable? If you receive child support, alimony, an annuity or other forms of income, do you have a 12-month history of receipt in order to document reliability?
4. Do I have a credit history? This refers to whether you have ever borrowed money for any purpose. If you haven't checked your credit report(s) recently, now is a good time to do this.
5. Do I have a good record of paying bills? Paying

utility bills, rent and other bills on time establishes an alternative credit record if you haven't previously borrowed money.

6. Am I able to pay my bills and other debts on time and have money left at the end of the month to save?
7. Am I able to make the mortgage payment every month plus handle additional costs for taxes, insurance, maintenance and repairs?
8. Do I have money saved for a down payment? The down payment is the portion of a home's purchase price the buyer pays in cash. The more you have for a down payment, the less you will need to borrow.
9. Do I have money saved for closing costs? The closing costs are the fees involved during the home-buying process. These may include but are not limited to appraisals, title work, inspections and credit report fees.

Lenders prefer that you have 20 percent of the purchase price for a down payment. For example, 20 percent of a \$50,000 mortgage is \$10,000. However, there are many special programs that require a smaller or no down payment. Even if you qualify for a smaller loan or one with no down payment, you will still need to have some money saved for unexpected expenses. Government loan programs are generally targeted to individuals and families with a modest income. There are a number of different programs available for first-time homebuyers. Many people

start the home-buying process with one of these programs or with a program offered by local community organizations.

If you make a down payment of less than 20 percent, you will generally have to purchase Private Mortgage Insurance (PMI) or participate in a government mortgage program.

Mortgage insurance only protects the lender (not the buyer) if you default on the loan. It is an additional cost to the mortgage.

If you answered yes to the above questions, you might be ready to buy a home. You also will need to determine if you have the time to do the research and find the right house. If you answered no to any of the questions, concentrate on strengthening those areas. To strengthen those areas, you can work through the money management sections or look for homebuyer education classes in your area. These classes are a good source of information and will help you prepare for homeownership.

*This resource is one in a series on **Managing Money** which include:*

Making your Money Work:

Determining What Is Important to You
Where Are You Now? (Net Worth Statement)
Stop Spending Leaks
Developing a Spending Plan

Using Credit:

What Is Credit and How Much Credit Can I Afford?
Types of Credit: What Are Your Choices?
Credit Cards
Credit Reports

Building Savings:

Ways to Save
How Your Money Can Grow
Where to Save
Investment Options

Selecting Financial Institutions:

Selecting a Financial Institution
Checking Accounts
Savings Accounts

Creating a Record System:

Keeping Records in Order
Where to Keep Records

Determining Readiness:

Financial Readiness
Benefits and Challenges

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